

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 ABF-01 TRSE-00 L-02 AID-05 IGA-01 EB-07

OMB-01 CIAE-00 INR-07 NSAE-00 FRB-03 AGR-05 SSO-00

SS-15 SP-02 NSC-05 FS-01 /066 W

----- 123698

P 211245Z MAY 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC PRIORITY 2781

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EO 11652: N/A

TAGS: EAID, CE

SUBJ: US OWNED PL-480 RUPEES IN INTEREST-BEARING  
ACCOUNTS

REF: COLOMBO 1549 AND 1630

1. SUMMARY: ACCORDING TO THE FEW RECORDS STILL  
AVAILABLE AT POST FROM 1966 AND EARLIER, USDO  
EXCHANGED LETTERS WITH CENTRAL BANK IN JUNE 1966  
AGREEING TO DEPOSIT PROCEEDS FROM USG LOANS TO  
CEYLON IN CEYLON TREASURY ACCOUNT BEARING INTEREST  
AT RATE OF 1-1/2 PERCENT. BEFORE THEN, NO INTEREST  
HAD BEEN PAID ON THESE FUNDS BY CENTRAL BANK, BUT PART  
OF MONEY HAD BEEN KEPT IN INTEREST-BEARING ACCOUNTS  
IN EASTERN BANK. ALL OF THESE COMMERCIAL ACCOUNTS  
HAD BEEN DRAWN DOWN TO ZERO BALANCE BY MID-1974 AS  
RESULT OF MAINTENANCE OF VALUE CONTROVERSY. AFTER  
THIS ISSUE WAS RESOLVED IN MID 1974, EMBASSY  
AGAIN BEGAN TO ACCUMULATE AMOUNTS OF RUPEES  
IN EXCESS ITS CURRENT NEEDS. WHEN THESE AMOUNTS  
HAD REACHED A SUFFICIENT LEVEL IN EARLY 1975,  
EMBASSY, UNAWARE OF EARLIER EXCHANGES, REQUESTED  
AUTHORITY FROM US TREASURY TO REESTABLISH  
COMMERCIAL ACCOUNTS A HIGHEST PREVAILING RATE.

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EMBASSY WAS INSTRUCTED TO DO SO, AND 1 MILLION

RUPEES WERE TRANSFERRED IN APRIL TO GRINDLAYS BANK, AFFILIATE OF FIRST NATIONAL CITY BANK OF NEW YORK. SHORTLY THEREAFTER, FINANCE MINISTRY SECRETARY INFORMED EMBASSY THAT USG HAD AGREED TO LEAVE FUNDS IN EXCESS ITS CURRENT NEEDS ON DEPOSIT IN CEYLONese TREASURY ACCOUNT AT 1-1/2 PERCENT. GSL POSITION WAS FORMALLY PRESENTED IN COOREY'S LETTER OF MAY 14 (COLOMBO 1549).  
END SUMMARY.

2. FOLLOWING IS RESULT OF EMBASSYS SEARCH ITS FILES FOR BACKGROUND TO COOREY LETTER OF MAY 14 WHICH MAY BE USEFUL IN FORMULATING GUIDANCE FOR AMBASSADORS MEETING WITH PRIME MINISTER REQUESTED COLOMBO 1630:

3. UP TO 1964 GENERAL USG OPERATIONS IN CEYLON WERE SUPPORTED BY THE 25 PERCENT OF PL 480 PAYMENTS DESIGNATED FOR SUCH USES (SEE AGRICULTURAL AGREEMENTS WITH CEYLON OF 1958, 1959, 1960, AND 1962). AMOUNTS IN EXCESS OF CURRENT REQUIREMENTS APPARENTLY WERE PUT IN TIME DEPOSITS WITH COMMERCIAL BANKS (STATE W-59, APRIL 10, 1962). THE OTHER 75 PERCENT OF THESE PL-480 PROCEEDS DESIGNED FOR COOLEY LOANS AND OTHER PURPOSES WERE KEPT IN EAR-MARKED NON-INTEREST BEARING ACCOUNTS IN CENTRAL BANK. SINCE THEY HAD NOT BEEN USED WITHIN SPECIFIED PERIOD OF TIME FOR DESIGNATED USES, EMBASSY BEGAN DRAWING ON THESE FUNDS FOR GENERAL OPERATIONS IN 1965.

4. IN JAN 1965, WASHINGTON QUERIED EMBASSY REGARDING NONPAYMENT OF INTEREST BY CENTRAL BANK (STATE A-41, JAN 15, 1965). POST REPLIED THAT CENTRAL BANK COULD NOT PAY INTEREST ON GOVERNMENT FUNDS UNLESS SPECIAL ARRANGEMENTS WERE MADE (COLOMBO A-617, APRIL 9, 1965).

5. AGRICULTURAL COMMODITIES AGREEMENT OF MARCH 12, 1966 CONTAINS STATEMENT THAT USG COULD PLACE LIMITED OFFICIAL USE

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RUPEES RECEIVED "IN INTEREST BEARING ACCOUNTS IN BANKS IN CEYLON SELECTED BY THE GOVT OF THE UNITED STATES OF AMERICA, UNLESS OTHER ARRANGEMENTS ARE MUTUALLY AGREED UPON BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF CEYLON". PREVIOUS AGREEMENTS DID NOT MENTION DEPOSITS AT ALL.

6. STATE A-87 DATED MAY 14, 1966 DIRECTED EMBASSY TO PLACE "THE CEYLON RUPEES COLLECTED UNDER THIS (1966) AGREEMENT TOGETHER WITH THE US USE PORTION OF YOUR EXISTING BALANCE AND ANY FUTURE COLLECTIONS....IN A SPECIAL ACCOUNT WITH THE TREASURY OF CEYLON, COLOMBO. THE BALANCE IN THIS ACCOUNT SHOULD ACCRUE INTEREST AT THE RATE OF 1-1/2 PERCENT PER ANNUM". EMBASSY HAS BEEN UNABLE TO FIND ANY BACKGROUND MATERIAL OR REQUEST WHICH MAY HAVE GENERATED THIS AIRGRAM. JUNE 1966 EXCHANGE OF LETTERS BETWEEN CEYLON GOVERNMENT TREASURY AND USGO ESTABLISHED THIS ACCOUNT. EIGHT MILLION RUPEES WERE TRANSFERRED FROM CENTRAL BANK TO THIS ACCOUNT. HOWEVER, 2.5 MILLION RUPEES ON DEPOSIT AT EASTERN BANK WERE NOT TRANSFERRED. FURTHERJF BETWDWN OCTOBER 1966 AND MAY 1967 AN ADDITIONAL 2.55 MILLION RUPEES WERE TRANSFERRED TO EASTERN BANK FOR DEPOSIT (SEE FS440S FOR THIS PERIOD USDO SYMBOL 6240). NO ADDITIONAL FUNDS WERE DESPOSITED IF:9..34:8-) ACCOUNTS UNTIL 1971.

7. LOANS MADE AFTER 1966 ARE BEING REPAID IN DOLLARS. NEVERTHELESS, AGRICULTURAL COMMODITIES AGREEMENT OF 1967 CONTAINS CLAUSE THAT PAYMENTS IN RUPEES COULD BE PLACED IN INTEREST-BEARING ACCOUNTS IN CEYLON SELECTED BY USG. IT DOES NOT REPEAT 1966 CLAUSE "UNLESS OTHER ARRANGEMENTS ARE MUTUALLY AGREED UPON".

8. IN OCTOBER 1969 EMBASSY INFORMED STATE AND TREASURY THAT OWNERSHIP OF EASTERN BANK WAS CHANGING (COLOMBO 2360, OCTOBER 21, 1969). IT LIMITED OFFICIAL USE

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NOTED THAT "EASTERN BANK HAS 20 TREASURY FIXED DEPOSIT RECEIPTS TOTALING 5,493,266.54 RUPEES". CHIEF DISBURSING OFFICER DIRECTED USDO TO TRANSFER HIS DEPOSIT ACCOUNTS TO NATIONAL AND GRINDLAYS BANK (TREASURY 311447Z OCT 69). FOR VARIOUS REASONS TRANSFER WAS DELAYED UNTIL 1971.

9. BY OCTOBER 1971 EMBASSY HAD ON DEPOSIT WITH NATIONAL AND GRINDLAYS BANK A SUM OF 3,489,000 RUPEES WHICH HAD BEEN TRANSFERRED FROM COMMERCIAL BANK DEPOSITS. EMBASSY THEN INFORMED TREASURY DEPARTMENT (COLOMBO 3118, OCTOBER 27, 1971) THAT COMMERCIAL BANK WOULD OFFER 7 PERCENT INTEREST ON ONE-YEAR FIXED DEPOSITS. THIS TELEGRAM STATED THAT DEPOSITS THEN HELD BY COMMERCIAL BANK AMOUNTED TO

2,464,000 RUPEES. EMBASSY SUGGESTED THIS OFFER BE ACCEPTED AND THAT BALANCE OF 3,000,000 RUPEES BE DRAWN "FROM FUNDS ON DEPOSIT WITH GOC TREASURY". USDO WAS SUBSEQUENTLY AUTHORIZED TO MAINTAIN THIS BALANCE OF 3 MILLION RUPEES WITH COMMERCIAL BANK (STATE 2000800, NOVEMBER 3, 1971). REACHING 3 MILLION RUPEE LEVEL REQUIRED TRANSFER OF SLIGHTLY OVER 500,000 RUPEES FROM GOC TREASURY TO COMMERCIAL BANK.

10. SUSPENSION OF BILLINGS ON MOV LOANS FROM OCTOBER 1970 THROUGH DECEMBER 1972 EVENTUALLY RESULTED IN DRAW-DOWN OF BALANCE IN GOC TREASURY ACCOUNT TO ZERO, AFTER WHICH COMMERCIAL ACCOUNTS WERE USED FOR OPERATING EXPENSES. LAST TIME DEPOSIT WAS BROKEN IN JUNE 1974. WITH SETTLEMENT OF MOV DISPUTE IN THAT SAME MONTH, EMBASSY AGAIN BEGAN TO ACCUMULATE RUPEES IN EXCESS ITS NEEDS AND BY EARLY 1975 HAD SUFFICIENT BALANCE TO REQUEST AUTHORITY TO REESTABLISH TIME DEPOSITS (COLOMBO 552, FEBRUARY 26, 1975). EMBASSY WAS INSTRUCTED TO DO SO (STATE 61088, MARCH 20, 1975), AND RS. 1,000,000 WAS PLACED IN GRINDALYS BANK IN APRIL. FINANCE SECRETARY COOREY FORMALLY SET FORTH GSL POSITION THAT SUCH TRANSFERS WERE CONTRARY TO AGREEMENT BY LETTER TO AMBASSADOR OF MAY 14.  
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VAN HOLLEN

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CENTRAL BANK, ECONOMIC AGREEMENTS, LOANS, BANK DEPOSITS  
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**Copy:** SINGLE  
**Draft Date:** 21 MAY 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** woolflhd  
**Disposition Case Number:** n/a  
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